AN AMERICAN BANKER SPECIAL REPORT

Regulations Keep Banks Out of Lucrative Revenue Bond Market

Continued from Page 1

and long-term. Figures include competitive and negotiated underwritings as well as tax-exempt private placements. To produce the ranking, par value of each issue was divided equally among senior managers and comanagers.

While identifying the bank leaders in public finance, the volume figures also reflect the great distance banks have to go to compete with their brethren from Wall Street. The numbers illustrate the shackling effects of the 1933 Glass-Steagall Act, which renders most municipal revenue bonds off limits to bank underwriters.

Merrill Lynch & Co., a securities firm unfettered by such laws, was the overall leader in this underwriting category. Handling mostly revenue bonds, it helped underwrite $16 billion in tax-exempt securities — considerably more than the combined volume of the three leading banks in the business.

Municipal revenue bonds are typically issued by state and local governments to finance corporate undertakings such as the construction of health care, pollution control, and public power facilities. Interest payments are tied to revenues from those projects.

Revenue bonds are considered the most lucrative for underwriters because they are often so large in dollar terms; and issuers generally negotiate the terms with a single book manager or a group of comanagers, rather than soliciting competitive bids from a large group of underwriters, as is customary with other debt offerings.

Bankers Trust, Citibank, and Morgan Guaranty have each formally requested permission from the Federal Reserve Board to underwrite revenue bonds and other "ineligible" securities. As reported in June, sources expect the Fed to rule in favor of the banks later this year. And next week, the Senate Banking Committee is scheduled to draft a bill, introduced by Sen. Jake Garn, R-Utah, the committee's chairman, that would authorize banks to underwrite revenue bonds and engage in other securities activities.

As underwriters, institutions risk their own capital by acquiring the obligations from an issuer and immediately selling them to investors, presumably at a profitable spread.

Congress has made a few exceptions over the years, giving banks limited authority to underwrite revenue bonds for housing projects and universities, areas where finances once threatened to dry up.

"The difference between a housing deal and a [public] power deal is zero," said Dick Stuart, head of Citibank's municipal finance division. "That's one of the travesties of Glass-Steagall."

Nevertheless, the law has endured. Banks must avoid underwritings of so-called "ineligible" securities and instead distribute them through private placements — where securities are placed with a small group of professional investors rather than through a public offering.

In underwritings, financial institutions risk their own capital by acquiring securities from an issuer and later selling them — presumably at a profit — to investors. Banks can avoid such risks in private placements by requiring purchase commitments from professional investors before issuing the securities.

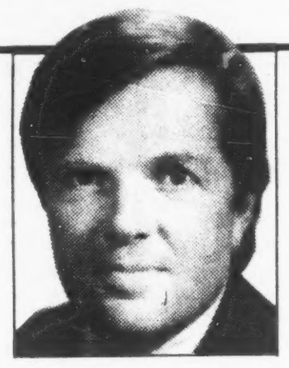
Bankers Trust's public finance unit, which has excelled as an agent in such private placements, acted as lead manager or comanager in 403 tax-exempt issues worth $4 billion in 1985. Though it ranked first among commercial banks, Bankers Trust was No. 14 among all financial institutions — handling only a quarter of Merrill Lynch's volume.

Morgan Guaranty, which established itself as a leader in higher education finance in 1985, underwrote $3.8 billion in 230 tax-exempt deals. It was ranked second among banks in 1985 and 15th among all financial institutions.

Citibank flexed its muscle in competitive underwritings and also specialized in designing tax-exempt financings accompanied by innovative credit enhancements and risk management devices, known in investment banking circles as "bells and whistles." With that expertise, the nation's largest bank handled 287 issues worth $3.5 billion. The commercial bank behemoth placed third among banks in tax-exempt financings, and it was 16th when counting in securities firms.

In the first half of 1986, Citibank led all banks in overall tax-exempt underwritings and moved up to 12th in the overall, the latest rankings published by the Public Securities Association showed. Morgan Guaranty remained No. 2 among banks and 15th overall. Bankers Trust fell two notches to third place within the commercial banking group and to No. 19 among all underwriters in the first six months of 1986.

Hundreds of other U.S. banks maintain public finance units primarily to serve government borrowers in their own regions, but only the 10 leading bank underwriters handled at least $1 billion in tax-exempt deals. Following is a brief look at some of those top 10 banks:



'Fee income 'doesn't come in steadily, but it comes in big bites.'

— Park Benjamin
Manufacturer's Hanover Trust Co.

CHEMICAL BANK — No. 4

Entering the state and municipal finance field four years ago with just two professionals, Chemical focused on underwriting issues for multifamily housing projects, student loan operations, and health care facilities — areas where the bank's lenders had already developed expertise. Headed by managing director Herman R. Charbonneau, the public finance unit now employs 30 professionals and has developed skills to distribute sophisticated debt instruments, such as variable-rate demand bonds.

"I just want to be within the top 10 in every market sector we go after and get the profitability that goes along with that ranking," Mr. Charbonneau said.

Chemical Bank ranked 23d among all underwriters in 1985. He said his unit is intent on building its reputation in underwritings where the bank negotiates directly with an issuer rather than competing for the business with other underwriters. He said Chemical "is not in the position" to battle with Bankers Trust, Morgan, or Citibank for competitive underwritings.

CHASE MANHATTAN — No. 5

Typical of a big commercial bank, Chase Manhattan Bank's strength in public finance lies in its ability to bid competitively on general obligation issues — those backed by the full credit and taxing power of a state or local government. Since 1980, the bank has been attempting to position itself as a strong player in negotiated finance — particularly in student loan and higher education deals.

'If you can handle an industrial revenue bond and place it successfully, it lends itself to other pieces of bank business.'

— Philip L. Toia, Chase Manhattan Bank

Philip L. Toia, senior vice president and group executive in charge of pub-

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Federal Home Loan Banks

Bonds

$1,310,000,000

7.00% Series Q-1989 Consolidated Bonds
Dated July 25, 1986 Non-Callable Due July 25, 1989
Interest payable on January 25 and July 25
Price 100% CUSIP #313388 QE 3

$653,000,000

7.75% Series K-1993 Consolidated Bonds
Dated July 25, 1986 Non-Callable Due July 26, 1993
Interest payable on January 26 and semi-annually thereafter
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$1,178,000,000

7.50% Series I-1991 Consolidated Bonds
Dated July 25, 1986 Non-Callable Due July 25, 1991
Interest payable on January 25 and July 25
Price 100% CUSIP #313388 QF 0

$859,000,000

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Dated July 25, 1986 Non-Callable Due July 25, 1996
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This announcement appears as a matter of record.

New Issue
July 16, 1986

AN AMERICAN BANKER SPECIAL REPORT

Big Three in Public Financing

Continued from Page 1

mercial bank is serious about mastering the fee-intensive investment banking business?

• Why miss out on an opportunity to raise cheap funds for the same state and local governments that could prove to be important allies on some future matter?

• While full-fledged interstate banking may be years off, why not gain footholds in all 50 states and hundreds of municipalities by helping to sell their bonds?

"Public finance gets to wave Citibank's flag [across the country]," said Dick Stuart, head of the municipal finance division at Citibank. "We're active in 10,000 of the 80,000 political subdivisions in the United States. And with everyone anticipating nationwide banking, the fact that we've done business with so many [out-of-state] people can't hurt."

'We're active in 10,000 of the 80,000 political subdivisions in the United States. And with everyone anticipating nationwide banking, the fact that we've done business with so many [out-of-state] people can't hurt.'

— Dick Stuart, Citibank

Hundreds of large and medium-size banks have built public finance operations in the last 10 years, but Citibank, Bankers Trust Co., and Morgan Guaranty Trust Co. of New York represent the industry's most serious contenders in the field. Each of the Big Three has carved out distinct target markets, where they can do battle most effectively with Wall Street.

"We weren't going to come into this market [in 1980] and compete with Goldman, Sachs [& Co.]," said David G. Bailey, senior vice president in charge of public finance for Bankers Trust since February 1985.

Bankers Trust, during its six years in the public finance business, has specialized in acting as the lone manager for a variety of small, corporate-related financings. That strategy proved instrumental in allowing Bankers Trust to handle more tax-exempt issues — in dollar terms — than any other commercial bank in 1985.

The *American Banker's* annual investment banking survey showed that Bankers Trust handled 403 tax-exempt issues worth $4 billion in '85.

"We did a tremendous amount of business in which we were sole manager or sole placement agent," Mr. Bailey said.

In these unassisted deals, the bank usually served issuers by distributing industrial development bonds through private placements. Banks are forbidden by law from underwriting most revenue bonds but are free to place them privately with a small number of investors. Private placements, which do not require a bank to risk its own capital, as in an underwriting, represented about 20% of the tax-exempt financings handled by Bankers Trust in 1985.

Industrial Business Rolls In

Much of the development bond business at Bankers Trust rolls in naturally from corporate relationships with other parts of the bank, Mr. Bailey said. "We won't actively seek [industrial development bonds] because the issue size is relatively small" — less than $5 million per issue last year, he said.

Typically, development bonds are issued by a municipality to finance construction for a private corporation. The resulting plant usually is leased to the corporation at a rate sufficient to pay off the tax-exempt bonds; the bond is backed by the corporation's credit and not the municipality's.

Bankers Trust has been busily peddling its variable-rate demand bonds — a flexible financing tool that Bankers Trust takes credit for inventing in 1981. Since then, several other banks and securities firms have become skilled at these financings, largely because of their attractiveness to both investors and issuers.

These medium-to-long-term securities give investors the option to "put back," or demand payment for the bonds, usually upon seven days' notice at an interest rate that is adjusted weekly. Banks often employ letters of credit or revolving credit arrangements to ensure that funds will be available to repurchase the bonds.

In its largest 1985 deal, Bankers Trust acted as one of four comanagers underwriting $250 million in variable-rate bonds issued by the Harris County government in Texas to finance the construction of toll roads.

At Bankers Trust, 1985 was dominated by variable-rate financings, though most were considerably smaller than the Harris County deal. Of the bank's 255 negotiated underwritings last year, roughly 225 issues — worth about $3.9 billion — involved variable-rate paper. In negotiated underwritings, issuers generally work out the terms of a deal with a single book manager or a group of comanagers, rather than soliciting bids from financial institutions, as is the practice in competitive underwritings.

"These [small, variable-rate financings] were not as profitable per deal, but they turned out to be fairly profitable overall because of the volume we were doing," Mr. Bailey said. "We were able to make a name for ourselves in that market."

Public finance generated $31.3 million in revenues for Bankers Trust in 1985, making it the bank's biggest money-maker of the five investment banking businesses examined by the *American Banker.*

High Marks in Education Finance

Morgan Guaranty's strengths lie elsewhere. Few underwriters matched Morgan's volume in handling bond issues for colleges, universities, and teaching hospitals.

Morgan officials are quick to cite figures compiled by the Securities Data Co., a New York-based information firm, ranking the bank the No. 1 lead manager in note and bond issues for colleges and universities.

"We can go head to head with the investment banks [in the higher education field] and come out as the book-running manager," said Arthur J. Kalita, vice president in charge of Morgan's public finance department.

Last fall, for example, Morgan acted as senior manager in bond issues worth a combined $500 million for the University of Texas System and the Texas A&M University System. The two separate issues, designed to substitute outstanding bonds with new obligations

Big Three: Page 14

Bankers Trust No. 1 in Tax-Exempt Issues

Continued from Page 11

lic finance, also sees great value in generating corporate-related business through tax-exempt private placements.

"If you can handle an industrial revenue bond and place it successfully, it lends itself to other pieces of bank business," he said.

MANUFACTURERS — No. 6

"Three years ago, we were zip," said Park Benjamin. Today, the proud senior vice president oversees Manufacturers Hanover Trust Co.'s 35 public finance professionals and 45 specialists on the dealer side.

Since he joined the bank in January 1982, it has developed capabilities in most tax-exempt financing activities open to commercial banks. And, as with many banks, Manufacturers seeks to distribute ineligible securities through private placements. The bank also acts as financial adviser to issuers of ineligible securities.

Late in 1985, Manufacturers joined Smith Barney, Harris Upham & Co. as colead manager in a $500 million refunding issue for Puerto Rico. "That says to me that we in large measure have achieved what we started out to achieve," Mr. Benjamin said. He acknowledged that his unit's profits remain minuscule compared to the bank's overall income.

Noting the volatility of the business, he said the fee income "doesn't come in steadily, but it comes in big bites."

FIRST CHICAGO — No. 7

Among the strongest municipal finance players in the state of Illinois, the First National Bank of Chicago has recently built a name for itself as a financial adviser to municipalities issuing securities that are ineligible to bank underwriters.

"Financial advisory assignments are not as profitable [as underwriting], but they carry no risk," said John Gilchrist, senior vice president and manager of First Chicago's public finance division. He's quick to point out that the bank handled 10 such assignments in 1985, though none appear in the Public Securities Association ranking.

After failing to achieve strong results with the bank's own personnel at the helm, First Chicago in September 1985 hired Mr. Gilchrist, a public finance veteran of the former A.G. Becker Paribas Inc. and later New York-based Drexel Burnham Lambert Inc., to head the unit. With 12 professionals, the bank boasts the second largest public finance staff in Illinois, second only to John Nuveen & Co., Chicago.

'I just want to be within the top 10 in every market sector we go after and get the profitability that goes along with that ranking.'

— Herman R. Charbonneau Chemical Bank

Under Mr. Gilchrist's leadership, the bank has become a leading investment banker for county and state agencies in Illinois. Among its biggest deals last year: lead managing a $233 million offering of refunding bonds to restructure the outstanding debt of the Chicago's Metropolitan Sanitary District, a sewer and water treatment agency. The bank completed another $133 million offering for the agency in June.

BANK OF AMERICA — No. 8

Like their colleagues in most other areas of the bank, officials in Bank of America's public finance unit are reassessing their strategy. Downplaying its relatively low ranking as a national underwriter, the bank's public finance section is "reemphasizing" its strength

Tax-Exempt: Page

SECOND-TIER COMMERCIAL BANKS IN PUBLIC FINANCE

1985 Rank	Underwriter	1984 Ranking	1985 $ Volume Underwritten (In Billions)*	1985 Issues
	(Dollar Amounts in Billions)			
11	Continental Illinois	13	$0.903	251
12	Texas Commerce	20	0.860	105
13	First Interstate California	10	0.842	119
14	Northern Trust Co.	15	0.566	179
15	Crocker Bank	12	0.518	68
16	Irving Trust Co.	21	0.454	131
17	Harris Trust	16	0.419	140
18	Marine Midland	17	0.385	157
19	MBank Capital Markets	48	0.348	44
20	Interfirst Bank, Dallas	19	0.327	58
21	Mellon Bank NA	28	0.308	35
22	Norstar Bank of Upstate NY	137	0.295	5
23	RepublicBank, Dallas	24	0.273	47
24	PNC Investment Co.	115	0.268	28
25	First City National, Houston	18	0.236	28
26	Shawmut Bank, Boston	23	0.199	41
27	Bank of New York	22	0.171	78
28	First Fidelity, N.J.	N/A	0.165	19
29	Trust Co. Bank, Atlanta	31	0.143	42
30	Norwest Securities, Minneap.	27	0.134	41

* Par value of each issue divided equally among senior managers and co-managers. Institutions were ranked only by their standing among other banks.
Source: Public Securities Association Data Base and McDonnell Douglas Corp., Denver

Despite legal restrictions, hundreds of small and medium-size banks help underwrite state and municipal bonds in their regions. For many banks, public finance represents their only true investment banking function. Many have in recent years expanded their underwriting staffs, which create securities, and their dealer operations, which distribute and trade them. The above table shows what might be termed the second tier of bank underwriters — those 20 institutions that rank below the top 10 and handled less than $1 billion in tax-exempt financings last year.

First Oklahoma . . .

➳ Continued from Page 7

First Interstate will be well positioned to take advantage of the change. And First Interstate isn't going into the oil patch without experience in the energy business. The banking company owns franchise banks in the Rocky Mountain region, where energy lending is done.

Moreover, anaylsts who gave a quick reading of the deal between First Interstate and the Federal Deposit Insurance Corp. to acquire First National say the Los Angeles banking company won some attractive concessions.

First Interstate will assume about $1.5 billion in deposit accounts and other liabilities and will purchase about $1.2 billion of the failed bank's assets.

The FDIC is paying First Interstate $72 million cash to take over First National, although the agency's final cost may be considerably higher. The FDIC also will provide financing of $300 million to First Interstate to cover the excess of liabilities being acquired over assets. For its part, the FDIC will take an equity position in the bank in the form of special preferred stock with dividends based on the Oklahoma bank's future operating results.

Regulatory acceptance of First Interstate's bid for First National ended months of sometimes near frantic efforts to find a way to recapitalize the bank and its parent company in the amount of $40 million. Mr. Cairns, the immediate past president of the American Bankers Association, worked since January when he arrived at First National to cuts expense and find ways of raising the much needed capital.

Twice the Comptroller of the Currency extended First National's deadline for coming up with an acceptable plan to boost capital to the minimum levels. The final deadline was to have been Aug. 16, and Mr. Cairns promised to meet it.

But First National's plan calling for a substantial amount of federal assistance wasn't accepted, Mr. Cairns said Tuesday morning.

At the same time, federal regulators were under the gun to meet the midnight Monday deadline of the law allowing out-of-state bank holding companies to acquire failed banks in other states. Federal regulators said the federal law was somewhat more "flexible" than an Oklahoma law passed earlier this year that was designed to help find buyers for failed and failing Oklahoma banks.

The Oklahoma law limits expansion within Oklahoma of any out-of-state bank that acquires a failed or failing bank. Specifically, the acquiring bank could not expand within Oklahoma unless the home state of the acquiring bank allowed reciprocal rights to Oklahoma banks, or after four years. Under the now expired federal law, First Interstate will have in Oklahoma the same branching privileges available to national banks.

By using the federal law, regulators also sidestepped provisions in the Oklahoma law that call for a two-tiered bidding process that allow Oklahoma banks, in a second round of bidding, to match any bid made by an out-of-state bank. The federal law simply stipulates that a preference be given to bids made by an in-state institution.

Meanwhile, members of Oklahoma's congressional delegation were generally favorable in their reaction to the out-of-state takeover.

Sen. David Boren, a Democrat who was critical of the FDIC's handling of the Penn Square failure, said through an aide that his primary concerns were that the bank's depositors be protected and that the bulk of the bank's problem loans be contracted back to banks within the state, rather than held by the FDIC, which might deal more harshly with delinquent borrowers.

The takeover assured that no depositors would lose money and $300 million of the bank's $412 million in loans retained by the FDIC were assigned to the Oklahoma City bank as collection agent, the staff aide said.

Sen. Don Nickles, a Republican, also said he was pleased that the bank had been merged.

Both Senators said since last week they had been in contact with FDIC Chairman William Seidman and Comptroller of the Currency Robert Clarke.

U.S. Rep. Doug Barnard, D-Ga., lamented the expiration of the Garn-St Germain emergency takeover provisions, and said an extension should be considered immediately.

"What happens tomorrow if we have another emergency like this," said Mr. Barnard, a member of the Banking Committee. "It will be most unpleasant and expensive."

Tuesday morning, the lobby of the former First National seemed relatively calm. A few customers stood in line in the cathedral-like room, "and are depositing money," Mr. Cairns said to reporters.

The situation began to unfold Monday evening when the bank at 6 p.m. announced a press conference to start at 7:30 p.m. Mr. Cairns then announced the bank's closing and transferral to First Interstate.

Mr. Cairns met with employees of the bank before the press conference. While he spoke, state police and FDIC personnel filed into the bank lobby, according to local press reports.

The FDIC announced its role in the bank closing about an hour later — a source of some concern, said an FDIC spokesman on the scene in Oklahoma City.

"We usually try to time the announced closing and transferral of assets at the same time," he said.

Mr. Cairns, though, apparently "was excited and wanted to get the announcement on the evening news," said the spokesman.

The FDIC was delayed as it awaited a technical go-ahead from a federal court judge in Oklahoma City, he said.

Mr. Cairns on Tuesday said the only planned change for the bank was the relocation of one of its two new branches, which comprised the former Oklahoma National Bank, Oklahoma City. Oklahoma National was merged into the new First Interstate Bank of Oklahoma City as part of the restructuring.

— David LaGesse and Robert M. Garsson contributed to this story.

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First Interstate . . .

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profits in 1985, thanks partly to improved net interest margins and continued efforts to control costs.

First Interstate has higher operating costs than many of its peers because of its extensive retail banking network, said Mr. Pinola. He noted, however, that First Interstate also enjoys higher margins due, in part, to a higher volume of interest-free demand deposits.

"Part of their strategy is to consolidate their position in individual markets to improve economies of scale and reduce their expense ratio," observed Donald K. Crowley, senior vice president at Keefe, Bruyette & Woods Inc., San Francisco. He gives high marks to Mr. Pinola and First Interstate's management, which has been substantially restructured this year, both at the holding company and several of its banks.

Mr. Crowley thinks First Interstate's future is bright. He thinks the banks' uniform identity — all sport the First Interstate name — also will help to maintain and improve market shares.

First Interstate's franchising team will help integrate the former First Oklahoma into the First Interstate network, Mr. Pinola said.

The new First Interstate Bank of Oklahoma will be operated autonomously, as are other First Interstate banks, Mr. Pinola said. He added, however, that "our management out in the field is very much aware of the value of common product and common purchasing [and] we are aware of their individual needs consistent with their market."

That includes pricing strategy.

But First Interstate won't "buy business" in Oklahoma, said Mr. Pinola.

"I don't think we will exercise that option here. We just hope to represent ourselves in a very sound financial posture. We are going to bring to the State of Oklahoma products and services that other Oklahoma banks, for various reasons, can't provide." That includes the ability to conduct business at affiliated banks in surrounding states and providing wholesale banking services, he says.

Mr. Pinola likens First Interstate to a ice cream store faced with increased competition on the same street corner. In order to succeed, First Interstate, like the ice cream store, must offer a wider array of products.

"We're smart and we're aggressive," Mr. Pinola concluded. ■

At a Glance

First Interstate Bank
As of December 31, 1985

Net Income	$313 million
Return on Assets	0.67%
Return on Equity	13.11%
Total Assets	$49.0 billion
Total Deposits	$35.6 billion
Total Loans	$33.6 billion
Total Equity	$2.5 billion
Member Banks	22
Total Offices	987
Number of Employees	34,303

Tax-Exempt . . .

➳ Continued from Page 12

on the West Coast. Said Peter Zachary, an associate in the bank's public finance department, "We are a major player west of the Mississippi."

Bank of America executives are quick to cite figures compiled by Securities Data Co., a financial information firm, showing that the bank ranked second only to Merrill Lynch & Co. among underwriters of tax-exempt issues in Western states. In California, the bank identifies itself as the state's leading underwriter of general obligation bonds sold competitively. In the first half of 1986, it advanced to sixth place among banks and No. 23 overall in the Public Securities Association rankings.

SECURITY PACIFIC — No. 9

Unlike Bank of America, Los Angeles-based Security Pacific National Bank's public finance section is attempting to shed its reputation as a West Coast regional underwriter. Richard M. Gerwitz, senior vice president in charge of public finance, insists the bank has the track record (and the New York office) needed for a national image.

The unit's forte was financing multifamily housing projects, handling 45 such issues last year. Its largest housing deal in 1985 was the financing of a $35 million apartment project for the city of Freemont, Calif. Security Pacific in that deal underwrote 10-year, variable-rate revenue bonds backed by a letter of credit to assure their payment. A large portion of its 1985 deals were attributable to corporate-related private placements worth less than $5 million each.

Security Pacific's professional staff quadrupled to 28 from the seven employees that it had when it started in 1983, but that did not prevent the bank from slipping in the rankings in the first half this year to No. 11 among banks.

FIRST BOSTON — No. 10

"New England is our backyard," said John S. Ingalls, managing director of public finance at First National Bank of Boston, emphasizing the bank's renewed regional strategy. With affiliate banks in Maine, Rhode Island, and Connecticut, the Boston institution has become the largest underwriter of general obligations in New England.

Satellite banks handle traditional general obligations in their own states, while 25 public finance professionals at the First Boston focus on the more lucrative deals: larger general obligations and eligible revenue bonds. Specializing in single family and multifamily housing bonds, the public finance unit relies regularly on business tips from the bank's real estate lending group.

Because of its proven ability to distribute securities in the region, First Boston participates in a national underwriting syndicate with Merrill Lynch & Co. and Salomon Brothers Inc. and several other securities firms. First Boston's volume figures also reflect its role as comanager with Salomon Brothers for the tax-exempt commercial paper issued by the Commonwealth of Massachusetts. Mr. Ingalls said of his unit: "It's another arrow in our quiver of banking services, that's the way I look at it."

On Thursday, the fourth part of this five-part series will examine commercial banks as middlemen in private placements of securities.

FDIC Accepts Costly Deal for Oklahoma's Failed First National

By NINA EASTON

WASHINGTON — The Federal Deposit Insurance Corp. agreed to an unusual and expensive assistance package in First Interstate Bancorp's acquisition of First National Bank and Trust Co. of Oklahoma City after the agency failed to sell off the bank before closing it.

"There were negotiations to complete an open-bank transaction, but they did not work out," said Graham T. Northup, FDIC's director of congressional relations and corporate communications.

Oklahoma's law permits the FDIC to force the merger of failing banks before they become insolvent. The FDIC is seeking similar authority nationwide from Congress.

In contrast to FDIC rescues of large banks, First Oklahoma's holding company was not saved; its shareholders and creditors will suffer substantial losses because the holding company is the principal stockholder in the bank.

One of the new twists to the assistance package was a so-called "negative premium" of $72 million. Translated, that means that the FDIC is paying a premium to First Interstate to acquire the failed bank. Generally, acquirers pay a premium to the FDIC, although the agency in turn will financially assist the merger.

"This was a sign of how bad the situation was in that particular situation and that particular state," Mr. Northup said.

Industry officials predict the FDIC may use this "negative premium" to induce more buyers for other troubled oil patch banks in the future. But they note that the Texas market is more attractive than Oklahoma, and that troubled banks in that state may not need as many carrots.

In return for the $72 million, the FDIC took an equity position in the merged bank consisting of an issue of limited participating preferred stock. The FDIC rarely takes an equity position in the banks it rescues or sells off.

If fact, this has occurred only three times in FDIC history, agency officials said. In the 1980 rescue of First Pennsylvania Corp., the FDIC took out warrants convertible to common stock, and in the 1984 rescue of Continental Illinois National Bank & Trust Co. of Chicago, the agency took on $720 million in nonvoting preferred stock, which also was convertible.

In 1977, when the FDIC rescued the Farmers Bank of Delaware, it took over $2 million in preferred stock that the state had purchased, the FDIC said.

Because of a 1982 law, the FDIC may only take an equity position in a bank consisting of nonvoting stock. "By law, we cannot have a voting position," said Douglas H. Jones, FDIC deputy general counsel.

Under the terms of the preferred stock agreement in the First Oklahoma case, the FDIC shares half of any profits if the bank earns more than an 80-basis-point return on asset. However, agency officials are not optimistic that they will recoup much, if any, money through this transaction.

Industry officials noted that First Interstate could direct its earnings to avoid paying the dividends to the FDIC. That issue was raised in discussions between First Interstate and the FDIC, and agency officials said they were confident about the acquirer's intentions.

In addition, the FDIC has agreed to retain assets of the failed bank with a book value of about $418 million. First Interstate will service a portion of those loans under an agreement in which First Interstate is rewarded for good recovery rates.

Still, the insurance fund could suffer substantial losses from those assets. One industry official close to the transaction predicted the agency could lose as much as $280 million on the bad loans it took over from First Oklahoma.

However, the official said, "they did the best deal they could have done."

The FDIC wanted to complete the deal Monday, before the expiration of two provisions in federal law — specifically in the 1982 Garn-St Germain Act — that make possible interstate acquisitions of failed banks with more than $500 million in assets. However, Oklahoma state law also would have enabled the FDIC to complete the interstate deal.

The state law "is more complex and potentially more time intensive," Mr. Jones said.

However, Mr. Northup said the FDIC is not anxious to obtain an extension of the Garn-St Germain provisions. Instead, he said the agency hopes that the failure of First Oklahoma will prompt Congress to move quickly on proposed legislation to grant the regulators sweeping new authority to sell off failed and failing banks to out-of-state buyers.

"Maybe those guys will realize that we do need this legislation," Mr. Northup said. "There are a bunch of big ones out there with these kinds of problems." ■

The Largest Commercial Bank Failures

Here are the largest U.S. commercial bank failures ranked by asset size, of institutions larger than $500 million, according to the Federal Deposit Insurance Corp.

1. Franklin National Bank, New York, NY. Closed Oct. 8, 1974. Deposits $1.445 billion. Assets $3.656 billion. Deposit assumption by European American Bank & Trust Co., New York.

2. First National Bank & Trust Co. of Oklahoma, Oklahoma City, Okla. Closed July 14, 1986. Assets of $1.6 billion. Deposits $1.5 billion. Deposit assumption by First Interstate Bancorp, Los Angeles, Calif.

3. First National Bank of Midland, Midland, Tex. Closed Oct. 14, 1983. Assets $1.4 billion. Deposits and other liabilities approximately $574 million. Deposit assumption by RepublicBank First National Midland, Midland, Tex.

4. United States National Bank, San Diego, Calif. Closed Oct. 18, 1973. Assets $1.266 billion. Deposits $932 million. Deposit assumption by Crocker National Bank, San Francisco, Calif.

5. United American Bank, Knoxville, Tenn. Sold to First Tennessee Bank, Knoxville, Feb. 15, 1983. Assets $778 million. Deposits $585 million.

6. Banco Credito y Ahorro Ponce, Ponce, Puerto Rico. Closed March 31, 1978. Assets $713 million. Deposits $608 million. Reopened under two banks: Banco de Santander of Spain and Banco Popular de Puerto Rico of San Juan.

7. Park Bank of Florida, St. Petersburg, Fla. Closed Feb. 14, 1986. Assets $593 million. Deposits $544 million. Sold to Chase Manhattan Corp., New York.

8. Penn Square Bank NA, Oklahoma City, Okla. Closed July 5, 1982. Assets $517 million. Deposits $470 million. Insured deposits assumed by FDIC-created Deposit Insurance National Bank of Oklahoma City.

Oil Bank Investors Calm, But Failure Of First Oklahoma May Spur Congress

By RICHARD RINGER

CHICAGO — The failure Monday of the First National Bank and Trust Company of Oklahoma City is likely to rejuvenate congressional efforts to permit federal bank regulators to arrange mergers for troubled banks before they are declared insolvent.

James G. Cairns

But the closing of the $1.6 billion-asset First National, the second largest bank to fail in U.S. history, has so far been calmly received in the Southwest.

First National, once the largest bank in Oklahoma and a symbol of stability and good management, was declared insolvent late Monday afternoon and then acquired by First Interstate Bancorp, Los Angeles. In closing First National, Comptroller of the Currency Robert Clarke said the bank had "severe liquidity problems. The bank became unable to meet its obligations to its creditors, necessitating that the bank be declared insolvent."

The bank reopened Tuesday as First Interstate Bank of Oklahoma City, a newly chartered subsidiary of First Interstate, the ninth largest bank holding company as of March 31, with total assets of $49 billion.

Although the emergency takeover authority included in the 1982 Garn-St Germain Act expired at midnight Monday, after regulators used it to act in the First National case, a congressional source said he expected an effort later this week to extend the provision.

Two other bills, the wide-ranging banking bill introduced by Senate Banking Committee chairman Jake Garn and the more limited "regulators' bill," introduced in the House by Banking Committee chairman Fernand J. St Germain, also authorize interstate takeovers of failing institutions.

The 1982 law permits regulators to arrange out-of-state takeovers for institutions with over $500 million in assets. The new Garn bill, by contrast, proposes to lower that threshold to $250 million.

At a press conference in the lobby of the bank Tuesday morning, James G. Cairns Jr. said he would remain as chairman and chief executive officer of the new First Interstate Bank of Oklahoma City.

Mr. Cairns said he resigned as chairman and chief executive officer of First Oklahoma Bancorporation Inc., the holding company of the former bank.

An interim board of directors on Monday evening assumed control of the new part of First Interstate Bancorp., said Mr. Cairns.

Mr. Cairns was hired in January to try to revive First National and its parent.

"Most people perceived the unusual weakness in First National," said Frank Anderson, a bank analyst with the Dallas-based Weber, Hall, Sale & Asso-

First Oklahoma: Page 7 ➡

First Interstate Bets on Oil Rebound

By ROBERT LUKE

LOS ANGELES — First Interstate Bancorp sees opportunity in adversity in its purchase of the failed First National Bank and Trust Company of Oklahoma City.

"Oil can't stay very long at $10 to $11 a barrel," observed Joseph J. Pinola, First Interstate's chairman and chief executive officer, referring to Oklahoma's ravaged, energy-based economy and the current condition of its banks. "If you put together a sound financial institution in what shortly will be an economic recovery, you have a combination that makes economic sense," he added in an interview.

Joseph J. Pinola

First Interstate, with assets of nearly $49 billion at March 31, wants to transform itself into a nationwide provider of financial services, Mr. Pinola said. It plans to do this without incurring the dilution to earnings and heavy debt associated with many acquisitions today.

"We think banks [making acquisitions] will go through the same trials and tribulations we have gone though in previous years," said Mr. Pinola, predicting that the hefty premiums now being paid for many banks eventually will diminish.

When that occurs, Mr. Pinola added, First Interstate's acquisition program "will go on in a big way." Earlier this year, First Interstate expressed an interest in merging with BankAmerica Corp. but was rebuffed. It also may acquire thrifts.

"Certainly that's a possibility," said Mr. Pinola, who previously was an executive at the Bank of America, which was founded by A.P. Giannini.

Mr. Giannini — thwarted in his banking empire building when the 1927 McFadden Act barred interstate banking — in 1928 formed the bank holding company now known as First Interstate. When the Bank Holding Company Act became law in 1956, Mr. Giannini's 21 banks in 11 western states were grandfathered into existence as a unique franchise — the largest of seven multistate bank holding companies.

Today, Mr. Pinola is following in Mr. Giannini's footsteps. In his march from the West Coast eastward, he is granting franchises to healthy smaller banks and buying unhealthy banks that aid his strategy.

In 1983, for example, First Interstate purchased the troubled IntraWest Bank of Denver, a large energy lender. Analysts estimate that First Interstate's energy portfolio today totals about $1.1 billion. The majority of the loans are to large integrated oil companies.

Though problems in energy, agriculture, and real estate dampened earnings, particularly of its Rocky Mountain banks, First Interstate reported record

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TODAY

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Quote

My heart bleeds for Citicorp. No one forced them to acquire those thrift institutions. Now let them continue to operate those thrifts under the terms and rules which they were acquired.

Vernon P. Mouw, chairman of the First National Bank of Sioux Center, Iowa, in a letter to the Federal Reserve Board protesting Citibank's proposal that the Fed loosen its restrictions on bank holding company acquisitions of failed thrifts. [Page 21]

Unquote

AN AMERICAN BANKER SPECIAL REPORT

Banks Forge Ahead with Private Placements

WHERE THE BIG BANKS STAND IN PRIVATE PLACEMENTS

1985 Rank	Managing Bank	Dollar Amount of Securities Placed (in billions) *	Number of Issues Co-Managed	Percentage of Overall Market @
KING OF THE HILL:				
	Salomon Brothers	$10.553	169	14.4%
THE EMERGING CHALLENGERS				
1	Citicorp	$2.972	104	4.1%
2	Morgan Guaranty	2.502	51	3.4
3	Bankers Trust	2.359	97	3.2
4	Bank of America	2.194	292	3.0
5	First Chicago	2.114	82	2.0
6	Continental Illinois	0.542	54	0.7
7	Chase Manhattan	0.236	12	0.3
8	Mellon Bank#	0.097	10	0.1
9	Manufacturers Han.	0.081	7	0.1
10	Bank of Boston#	0.065	4	0.1

* Each co-manager receives full credit for the entire issue.
@ Based on each institution's share of the $73.066 billion in total credit awarded to all private placement managers in 1985 by IDD Information Services.
\# Banks that are not among the nation's 10 largest. They replace Chemical Bank and Security Pacific National Bank, which did not participate.
Source: IDD Information Services

Citibank Unit Ranks First In '85; Raises $2.9 Billion

By ANDREW ALBERT

NEW YORK — Last summer, Tifco Inc., a firm that finances premium payments for big insurance customers, found itself in somewhat of a bind.

Seeking about $25 million to fuel its quick expansion, the company turned to its principal banker, Citibank, for help. Because the firm was already flush with senior bank debt, the bank advised Tifco to avoid the corporate loan route in order to leave itself with borrowing capacity for the future. Just a few years ago, corporations rarely heard that kind of talk from their commercial bankers, who had little interest in any financial puzzle that couldn't be solved with the old fixed-rate loan.

THE NEW INVESTMENT BANKERS
FOURTH OF A SERIES

Today, however, the largest U.S. banks are far more willing to respond to corporate finance needs with a wide variety of remedies. New York-based Citibank accommodated Tifco by arranging a sale of securities through a private placement — a financing technique that is quickly becoming the most popular and most profitable alternative to the corporate loan.

As part of its first investment banking survey, the *American Banker* took a close look at the increasing role of commercial banks as arrangers of private placements, an area still dominated by Wall Street's big-name investment

Bankers rank the rankings
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Placements: Page 24 ➤

BankAmerica Posts $640 Million Loss Because of Huge Loan-Loss Provision

By ROBERT LUKE

LOS ANGELES — BankAmerica Corp. said its losses widened to $640 million in the second quarter as a result of a whopping $988 million provision for loan losses.

The higher loss provision, blamed on deteriorating asset quality in the energy and commercial real estate sectors as well as problem loans to private Third World borrowers, has resulted in a net increase of $605 million in BankAmerica's loan-loss reserve since the end of the first quarter.

The $640 million loss, or $4.25 a share, compares to a loss of $338 million, or $2.34 a share, in the year-earlier quarter. For the first six months,

Bankers Trust Co. Earnings
Page 17

BankAmerica lost $577 million, or $3.94 a share, against losses of $224 million, or $1.71 a share, a year earlier.

In all of 1985, BankAmerica lost $337 million.

Moody's Investors Service respond-

BankAmerica: Page 18 ➤

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